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Question: 1401

A financial institution discovers that an employee has been facilitating unauthorized wire transfers. What is the most effective internal control measure to prevent this type of fraud in the future?

A. Increase employee bonuses for performance
B. Implement dual control for all wire transfers
C. Limit employee access to financial records
D. Conduct annual fraud risk assessments

Answer: B
Explanation: Implementing dual control for all wire transfers is an effective internal control measure that requires two individuals to authorize transactions, thereby reducing the risk of unauthorized transfers and enhancing accountability.

Question: 1402

When preparing for an interview, what should be the investigator's primary focus regarding the interviewee's background?

A. Their personal relationships
B. Their potential motives for deception
C. Their social media presence
D. Their professional qualifications

Answer: B
Explanation: Understanding the interviewee's potential motives for deception is crucial in preparing for the interview, as it can inform the investigator's approach and questioning strategy.

Question: 1403

A jewelry manufacturer experiences shortages in precious metals. The smelting supervisor records higher scrap recovery rates than actual, allowing diversion of pure materials. Concealment involves:

A. Altering production yield reports
B. False vendor credits
C. Fictitious customer orders
D. Overstated labor hours

Answer: A
Explanation: Altering production yield reports inflates expected outputs or recoveries, concealing theft of inputs by making records appear consistent with operations. This exploits technical processes where yields vary, requiring expert verification for detection.

Question: 1404

A logistics VP under immense targets rationalizes $5.6M fictitious sales as "creative accounting." This aligns with the fraud triangle component of:

A. Opportunity via weak segregation
B. Lack of rationalization
C. Capability to override controls
D. Pressure from performance goals

Answer: D
Explanation: The fraud triangle (Cressey) includes pressure (e.g., $5.6M targets), opportunity, and rationalization. Here, targets drive the act, with "creative accounting" as rationalization.

Question: 1405

In qualifying a digital forensics CFE for cryptocurrency tracing, the expert holds certifications in blockchain analysis and testified in 10 similar cases.

A. Multiple testimonies indicate bias disqualification
B. Qualification demands peer-reviewed publications
C. Certifications and testimony history support qualification
D. Digital expertise requires law enforcement background

Answer: C
Explanation: Relevant certifications, specialized training, and prior qualified testimony demonstrate expertise for the proffered opinions.

Question: 1406

EnerTech recognizes $28 million future contract revenue via long-term service agreements with 90% deferral ignored. Deferred revenue flatlines. Flag?

A. Revenue growth vs. bookings
B. Cash conversion cycle
C. Contract asset/liability net position
D. Margin stability

Answer: C
Explanation: Timing manipulation accelerates revenue vs. ASC 606 deferral; contract asset/liability imbalance flags; CFEs map obligations, deferring $25M properly.

Question: 1407

Contract: $1M invest, 20% promoter fee, pooled in LLC with advisory board. Security?

A. No; investor control
B. No; fixed fee
C. Yes; pooling prong
D. Yes; efforts prong

Answer: C
Explanation: Pooling satisfies commonality; advisory cosmetic per case law.

Question: 1408

In a civil fraud suit alleging $10 million losses, the jury must find liability if evidence shows 51% likelihood. This reflects which burden?

A. Preponderance of the evidence
B. Probable cause
C. Beyond reasonable doubt
D. Clear and convincing for punitive

Answer: A
Explanation: Standard civil burden is preponderance (more likely than not), lower than criminal to balance private dispute resolution in fraud recovery.

Question: 1409

During a ransomware incident, the first response step is:

A. Restore without backups
B. Ignore the incident
C. Pay the ransom immediately
D. Isolate affected systems and notify stakeholders

Answer: D
Explanation: Containment via isolation prevents spread, followed by forensics, law enforcement notification, and backup restoration (if clean), avoiding payment encouraging attacks.

Question: 1410

A composite insurer offering both property-casualty and health products wants to prioritize fraud prevention investments between vehicle insurance fraud and health care fraud. Its internal loss analysis shows that: (1) vehicle fraud results in fewer but higher-severity staged accident and arson-for-profit cases, and (2) health care fraud produces many low-to-medium value claims through provider upcoding and unnecessary services. Which strategic approach to detection and prevention is most appropriate given these differing fraud profiles?

A. Advise the client to pay the amount immediately to avoid penalties
B. Use the same detection rules and thresholds for both lines to simplify operations
C. Prioritize health care fraud exclusively because it has more claim events
D. Instruct the client to ignore the call and not provide any personal information

Answer: E
Explanation: Vehicle insurance fraud such as staged accidents and arson-for-profit tends to involve fewer incidents with large individual losses, calling for specialized investigative capacity, scene analysis, and collaboration with law enforcement. Health care fraud typically manifests as numerous lower-value claims across many providers and patients, making it more effectively addressed through high-volume data analytics, pattern recognition, and targeted provider reviews. A differentiated yet coordinated strategy that tailors detection and prevention tools to the specific fraud characteristics of each line optimizes resource allocation and impact. Applying identical rules and thresholds across fundamentally different fraud environments would either miss significant risks or create excessive false positives, undermining control effectiveness.

Question 1:
A financial advisor is approached by an elderly client who has received a phone call from someone claiming to be from the IRS, demanding immediate payment for back taxes. Which of the following is the most appropriate action for the advisor to take?

E. Develop specialized SIU expertise and analytics for both lines, with catastrophe-focused investigations for vehicle fraud and high-volume pattern analytics for health care fraud
F. Focus only on high-severity vehicle fraud because large cases are more visible
G. Suggest the client contact the police to report the scam
H. Recommend the client seek a tax attorney to resolve the issue

Answer: E
Explanation: The scenario describes a common form of elder fraud where scammers impersonate government officials to extract money. Advising the client to ignore the call and not provide personal information is the best course of action, as legitimate government agencies typically communicate through official channels and do not demand immediate payment over the phone.

Question: 1411

Fraud response plan development for a tech firm prone to IP theft includes what advanced element?

A. Scenario-specific protocols with escalation matrices
B. Post-incident review exclusion
C. Employee-wide training mandates only
D. Generic template usage

Answer: A
Explanation: Advanced plans include tailored responses, decision trees, contact lists, and preservation steps customized to risks like rapid digital evidence loss in IP cases.

Question: 1412

Leverage Index (LVGI) >1 in Beneish model may indicate:

A. Increasing debt motivating fraud
B. Sales decline
C. Asset quality enhancement
D. Improving margins

Answer: A
Explanation: Rising leverage increases financial pressure, potentially driving earnings manipulation.

Question: 1413

An employee who reported tax fraud is later demoted. What legal action can the employee take?

A. Breach of contract
B. Defamation
C. Whistleblower retaliation claim
D. Intentional infliction of emotional distress

Answer: C
Explanation: The employee can file a whistleblower retaliation claim, asserting that the demotion was a direct result of their reporting of tax fraud. This claim is essential for protecting employees who expose wrongdoing.

Question: 1414

A registered representative sells away private securities without firm approval, defrauding clients. This highlights failure in which SRO supervisory responsibility?

A. Outside business activities monitoring
B. Arbitration procedures
C. Trade surveillance
D. Continuing education

Answer: A
Explanation: SROs require firms to supervise private securities transactions and outside activities to prevent unauthorized, potentially fraudulent sales.

Question: 1415

A multinational company discovers a suspected procurement kickback scheme involving a buyer in a European civil law jurisdiction and a vendor headquartered in a U.S. common law jurisdiction. The buyer allegedly steered contracts in exchange for bribes, causing inflated prices. The company asks a fraud examiner to explain how the structure of civil law systems may affect the investigation and litigation strategy compared with common law. Which characteristic of civil law systems is most relevant for planning the evidentiary and procedural approach?

A. Heavy reliance on judge-led investigation and written dossiers, with less emphasis on oral adversarial cross-examination at trial
B. Exclusive use of juries for all fraud cases, regardless of complexity
C. Inability to bring civil claims for fraud in civil law courts
D. Absence of any codified rules governing evidence and procedure

Answer: A

Explanation: Civil law systems typically feature comprehensive codes governing substantive law and procedure and tend to rely more heavily on judge-driven processes than adversarial party-driven models. In many civil law jurisdictions, investigative judges or examining magistrates play an active role in gathering evidence and compiling written case files, and trials may focus on reviewing these dossiers rather than extensive live adversarial cross-examination. This structure can influence how a fraud examiner coordinates with local counsel, particularly regarding timing of investigative steps, access to judicial files and the role of expert evidence. Although civil law systems permit civil claims for fraud and have structured evidentiary rules, the procedural emphasis differs markedly from common law's adversarial, trial-centered cross-examination model.

Question: 1416

In a high-tech firm's server parts inventory ($1.2 million), cycle counts show consistent overages in low-value cables masking shortages in processors. The counter rotates items suspiciously, and access logs indicate after-hours RFID tag swaps. Shrinkage concealment relies on what method?

A. Phantom inventory creation through tag manipulation
B. Bid rigging with suppliers for inflated credits
C. Forced balancing by shifting counts across categories
D. Inventory lapping via rotated over/under statements

Answer: C
Explanation: Forced balancing by shifting counts across categories conceals processor theft by overstating cables to offset shortages, creating a net-zero variance that evades shrinkage thresholds. RFID swaps enable precise manipulation during rotations. Detection requires analytical review of item correlations and mandatory blind counts with independent teams.

Question: 1417

Tracing remailer services in a $8.5 million embezzlement, the CFE identifies sources: browser cache on suspect's phone, router ARP tables, ISP remailer logs via subpoena, and Tor exit node IPs. Which digital evidence source demands volatility prioritization during planning?

A. Tor node blacklists
B. Browser session cache
C. ISP remailer subpoena records
D. Router ARP cache tables

Answer: B

Explanation: Browser cache on the phone holds ephemeral session cookies and DOM storage linking to remailers, volatile upon power-off or clearing, requiring live acquisition before imaging. Router ARP is semi-persistent but less critical than active sessions tying to $8.5M transfers, per sources of digital evidence hierarchy in forensics planning.

Question: 1418

AutoDealer books $11M unsold floorplan as inventory sales. GP% spikes 5%. Flag?

A. Margin anomaly
B. Inventory turns
C. Cash flow
D. AR days

Answer: A
Explanation: Concealed expenses; gross profit test reveals; physical count exposes.

Question: 1419

Government auditors follow standards similar to private-sector for fraud. This ensures consistency in what?

A. No fraud responsibility
B. Fraud consideration in financial audits
C. Performance audits exclusively
D. Operational audits only

Answer: B
Explanation: INTOSAI standards apply fraud responsibilities akin to ISA 240 for public-sector financial statement audits.

Question: 1420

The role of self-regulatory organizations includes market surveillance to detect anomalies. In detecting spoofing where fake orders are placed and canceled to mislead, SROs primarily rely on which tool?

A. Audit trails
B. Trade reporting systems
C. Issuer filings

D. Customer complaints

Answer: A
Explanation: SROs use consolidated audit trails and surveillance systems to monitor order and trade data, identifying manipulative patterns like spoofing that distort market perception.

Question: 1421

In a scenario involving volatile resistance from a senior executive during a fraud interview, Amelia, a CFE, should prioritize techniques that:

A. Shift to written questionnaires only
B. Maintain professional neutrality and use diffusion strategies
C. Involve immediate involvement of law enforcement
D. Allow uncontrolled emotional outbursts

Answer: B
Explanation: Difficult interviewees require calm diffusion: acknowledging feelings, using silence, and redirecting productively. Neutrality preserves control; escalation or avoidance forfeits information potential.

Question: 1422

An electronics retailer notes persistent shrinkage in high-demand items. Surveillance reveals employees concealing products in trash bins for later retrieval. To prevent detection during inventory counts, they manipulate count sheets by double-counting adjacent items. This concealment involves:

A. Falsification of physical inventory observations
B. Altered perpetual records post-theft
C. Overbilling to absorb losses
D. False credits from vendor returns

Answer: A
Explanation: Falsification of physical inventory observations includes tampering with count tags, miscounting, or altering sheets during audits to hide shortages. Double-counting or skipping stolen sections masks theft, particularly effective when counts are performed by involved employees without independent oversight.

Question: 1423

A defense contractor's CFE handles classified bid-rigging intel worth $15 million, bound by confidentiality. A subpoena demands disclosure. Per ethics, what governs release of privileged information?

A. Comply only if fraud exceeds $10M
B. Retain indefinitely for defense
C. Client consent overrides legal demands
D. Disclose per legal authority requirements

Answer: D
Explanation: Ethics allow confidential disclosure when legally required, as with subpoenas on $15M intel. Consent secondary, thresholds irrelevant, retention breaches duty.

Question: 1424

A laboratory performs comprehensive genetic testing panels on all patients regardless of medical necessity, billing payers for each component separately rather than as bundled tests. This results in significantly higher reimbursements. The scheme is which type?

A. Panel explosion
B. Unbundling
C. Overutilization
D. Fragmented billing

Answer: B
Explanation: Unbundling, or fragmented billing, separates integrated services into individual codes to maximize payments, prohibited when bundles exist. This provider scheme contrasts overutilization of needed tests; phantom services; or explosion via unnecessary panels.

Question: 1425

During a fraud examination at a credit union, analysts identify red flags including frequent large cash deposits just under reporting thresholds, followed by immediate wire transfers abroad, from accounts opened with foreign passports. Which red flag combination suggests potential financial institution fraud?

A. Inconsistent employment history on loan applications
B. Overstated assets on personal financial statements
C. High-velocity transactions with structured deposits
D. Multiple loans with declining property values

Answer: C
Explanation: Structured deposits (below reporting thresholds) combined with rapid international transfers

are classic red flags for money laundering or new account fraud to move illicit funds. In financial institutions, this indicates exploitation of new accounts for layering. Other options relate more to loan fraud red flags like documentation inconsistencies or appraisal issues.

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